



February 17, 2010

The Honorable Charles Rangel
The Honorable Dave Camp
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515

**Re: *Written Testimony for the record on President Obama's Budget Request:
 Enact asset-building investments included in President Obama's FY2011 budget request***

Dear Chairman Rangel and Ranking Member Camp:

CFED writes to express our support for the enactment of key asset- and wealth-building investments in President Obama's FY2011 budget request, including reform of the Saver's Credit and automatic enrollment into IRAs. As the Committee considers its goals for the year, we encourage you to include these and other policies that enable millions of low- and moderate-income Americans to connect to the financial mainstream, save and build wealth.

The federal government currently provides a host of incentives to encourage asset building including the property tax and mortgage interest deductions, exclusion of capital gains at death, deferral of income taxes for retirement accounts and preferential capital gains tax rates. Unfortunately, few of these benefits reach low-income Americans. As detailed in our 2007 Report, *Return on Investment? Getting More from Federal Asset-Building Policies*, in FY2005, the federal government provided more than \$367 billion in tax subsidies to incent asset building. However, because the vast majority of these incentives are delivered through the tax code, they are unavailable to the millions of low- and moderate-income Americans who have limited or no federal income tax liability, even as they pay sales, excise and other taxes.

Our asset building subsidies are upside down: More than 45% of the asset benefits went to households with incomes of more than \$1 million. These households receive an average benefit of \$169,150. In contrast, the bottom 60% of households received less than 3% of the benefits. Households earning less than \$20,000 a year received a subsidy of about \$3. Upper-income households benefit vastly more from these incentives than they pay into the system. The top

1% of earners received 45.3% of the benefits of these policies, double their contribution (22.6% in 2003) to the federal tax rolls. To move towards a level playing field, we support President Obama's recommendation to limit the tax rate at which itemized deductions reduce tax liability to 28% for upper-income households. CFED is updating its report and would be pleased to share our findings with the Committee.

Findings from CFED's *2009-2010 Assets and Opportunity Scorecard* also reveal marked disparities in asset ownership among Americans, many of whom face significant barriers to economic security.

- Nearly a quarter of Americans (22.5%) are asset poor, meaning they have insufficient assets to keep them out of poverty for three months in the event of income loss
- 27.3% of households with children are asset poor
- Minority households are more than twice as likely to be asset poor than white households (37.2% compared with 16.4%)
- More than 14% of Americans live in extreme asset poverty, meaning they have zero or negative net worth; 23.8% of minority households live in extreme asset poverty

Policy makers' efforts to alleviate poverty have traditionally focused on issues of income and consumption. In recent years, Congress has embraced an expanded vision of poverty alleviation. Through Congressional efforts in the *Pension Protection Act of 2006* and *The Food, Conservation and Energy Act of 2008*, laws to encourage savings, investment and asset accumulation in conjunction with, not instead of, traditional anti-poverty programs were enacted.

These initiatives recognize that those with assets are more economically secure, create more options in life, and can pass on status and opportunities to future generations. Asset-building programs enhance the success of poverty alleviation initiatives by enabling low-income earners to save, build wealth, enter and engage in the financial mainstream. Families with savings also strengthen our economy by providing investment funds for economic growth.

CFED urges the Ways and Means Committee to enact the following legislation to enable all families to be able to connect to the financial mainstream, build a financial cushion and achieve financial self-reliance.

Saver's Credit Reform

CFED is pleased to see Saver's Credit reform included in the President's budget request. The Saver's Credit was originally designed to provide a saving incentive for low- and moderate-income households. However, its final structure has led to its complete

underutilization. More than 50 million households have income that should qualify them for the Saver's Credit, yet only 5.9 million individual income tax returns claimed the credit. This underutilization is due to the complexity of the credit and its inability to reach the vast majority of low-income households.

CFED supports *The Savings for American Families' Future Act* (H.R. 1961) which tracks the President's proposal for Saver's Credit reform and expansion. This proposal would expand retirement savings incentives by providing a flat 50% match on qualified contributions up to \$500/\$1,000 for a single/joint filer; increasing the income eligibility requirement to \$65,000 for joint filers and \$32,500 for single filers, and automatically depositing matching contributions into the designated retirement account through IRS Form 8888.

Automatic Enrollment in IRAs

Only fifty-two percent of households now own a retirement savings plan and low-income workers are much less likely to save for retirement than their higher-income counterparts. The majority of low-income workers—more than 92%—are not participating in a 401(k) type plan because many of them are not offered a retirement plan by their employer. Only 37% of those earning under \$30,000 annually have access to a retirement account at work.

President Obama has proposed to extend payroll-based retirement saving opportunities to a majority of the 78 million employees currently without access to a retirement plan. Under his proposal, employers who do not sponsor a retirement plan would facilitate direct-deposit payroll deductions to an IRA and receive temporary tax credits to offset administrative costs. The proposed change affects all employers in business for more than two years and with more than ten employees.

In addition to retirement, IRAs, which can benefit from the Saver's Credit, can be accessed without penalty for higher education and homeownership expenses, important investments that help individuals and families attain long-term financial security.

Asset Limit Reform

CFED also supports the administration's attention to asset limit reform. Many public benefit programs – including Temporary Assistance to Needy Families (TANF) and Supplemental Security Income (SSI) – limit eligibility to those with few or no assets. If a family has assets over the limit, it must "spend down" longer-term savings in order to receive assistance. Asset limits were originally intended to ensure that public resources did not go to "asset-rich" individuals. However, the limits have not been raised in decades and also penalize people from saving in retirement accounts. In programs like TANF, limits are a relic of an entitlement policy that no

longer exists and should be eliminated. Asset limits in SSI should be raised from the current levels of \$2,000 to at least \$5,000 for savings in retirement accounts.

Assets for Independence Reauthorization

President Obama included level funding for the Assets for Independence (AFI) program in his budget request. Nationwide, more than 86,000 participants have saved through a matched savings account or Individual Development Account (IDA). More than 2/3 of these savers derive from the AFI program.

Though the program receives consistent and level funding each year, the authorization expired in 2003. The Ways and Means Committee must reauthorize and improve the *Assets for Independence Act* (P.L. 105-285), the federal government's primary program support for matched savings accounts. Needed changes to AFI will increase the efficiency and accessibility of IDAs, enabling continued impact among low-income families working to invest in major assets and move up-and-out of poverty.

A number of studies report significant increases in financial security for IDA participants. The AFI evaluation study found significant differences between AFI participants in comparison to demographically similar non-AFI participants: individuals and families who participated in an AFI program were 35% more likely to become homeowners, 84% more likely to become business owners and nearly twice as likely to pursue post-secondary education or training. Another study revealed that more than half of program graduates who previously received public assistance no longer received assistance after completing the program.

In addition to those initiatives included in the President's budget request, CFED also supports the following proposals that will promote intermediate asset purchases and life-long savings.

Expand Matched Savings Accounts

CFED also supports expanding IDAs through the bipartisan and bicameral *Savings for Working Families Act* (SWFA) (H.R.2277/ S.985) championed by Representatives Pomeroy, Pitts, Schwartz and Brady. SWFA proposes matching the savings of at least 2.7 million low-income families for education (for adult or child), homeownership, or education through a tax credit to financial institutions that match up to \$2,000 in savings dollar-for-dollar. The bill also provides \$120 million to nonprofits to provide financial education such as business assistance and housing counseling.

Children's Savings Accounts

Congress should enact a universal, progressive children's savings account program providing an initial deposit for all newborns and matching deposits for low- and moderate-income children for education, homeownership or retirement.

More than one third of the four million American children born each year — and more than half of minority children — are born into asset poor families. Such disadvantage is harmful to a child's future, affecting their ability to pursue a college education, achieve homeownership, pursue entrepreneurship and prepare for retirement. Children's savings accounts are powerful financial products that could expand economic and educational opportunities for children by encouraging long-term planning, building family wealth, and promoting financial literacy.

Roth YSAs

Congress should also permit adults to use a portion of their Roth IRA allocation to open accounts and save in a child's name. Currently, there are no age restrictions limiting who may own a Roth, however, only those with earned income may make contributions into the account. Adults' contributions can be deducted from their annually allowed maximum contribution to a Roth account. Contributions made by low-income families should also be eligible to receive a Saver's Credit match. YSA savings should be excluded from eligibility determinations for means-tested public benefits programs in order to avoid creating a savings disincentive. Permitting such flexibility will allow adults to start and fund accounts for children early in their lives.

Aligning uses in retirement accounts

Congress should clarify and simplify rules regarding intermediate uses of retirement accounts. Individual Retirement Accounts – and to a lesser extent 401(k)s, 457s, and 403(b)s – have uses extending beyond retirement: IRA funds can be used to support college education and up to \$10,000 in an IRA account can be used for first-time home-ownership; such uses are only available as loans from 401(k)s. Employer accounts allow loans which provide encouragement for individuals to save more than they think they can knowing they can borrow from themselves later. However, loans from IRAs are prohibited. The law should align loan policy, homeownership and education uses. People should be allowed to borrow from their IRA the way they can from an employer-provided account. Also, individuals should be able to withdraw funds for homeownership and college education from an employer-based account. The \$10,000 lifetime limit for homeownership withdrawals should be doubled. In addition, employees who borrow from an employer-sponsored retirement account should be permitted to repay the loan even after separation from the employer.

Conclusion

CFED encourages the Ways and Means Committee to support investment in asset-building policies and promote those that have positive *impact* and proven *effectiveness* in tax legislation this session. CFED supports a broad asset agenda and investments in critical initiatives that will assist low-income working families contribute to and benefit from the economy, save, build wealth and move to a more secure financial position. For more information about these and other critical wealth-building policies, contact me at cwayman@cfed.org or 202.207.0125.

Sincerely,

Carol E. Wayman

Carol E. Wayman
Federal Policy Director

CC: Treasury Secretary Timothy F. Geithner
OMB Director Peter R. Orszag
Congressman Jim McDermott
Congressman John Linder
Congressman Early Pomeroy
Congressman Joe Pitts
Congresswoman Allyson Schwartz
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